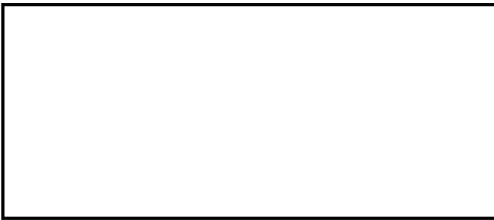


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DIA and DOS review(s) completed.

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GENERAL

1. British find Menon's account of Peiping talks obscure:

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British foreign secretary Macmillan, who talked with Krishna Menon on 3 June, has described him to Ambassador Aldrich as seeming to be honest but "unable to express himself logically." Macmillan said it was very difficult to gain a clear understanding of what Menon had in mind and of what had actually occurred in his talks in Peiping.

Menon apparently envisages a series of Sino-American conferences to be held wherever the United States and Communist China have diplomatic missions. Such conferences, designed to explore the relaxation of tensions in the Far East, might lead eventually to formal discussion of the off-shore islands and Formosa.

Comment: Macmillan's account supports other evidence that Chou En-lai encouraged Menon to believe in the possibility of successful Sino-American negotiations but did not significantly modify the hard Chinese Communist line on substantive issues.

Menon's proposal for Sino-American diplomatic contacts reflects a similar suggestion of Chou's. Chou seems to believe that an expansion of such contacts--similar to those of the past year between American and Chinese Communist representatives in Geneva, on the subject of American nationals detained in China--would lead to top-level formal negotiations and would facilitate general acceptance of Peiping in the international community.

2. Soviet ambassador in Peiping comments on Sino-Soviet relations:

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Soviet ambassador Yudin recently expressed the opinion that Communist China would be so strong in another 15 years

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that no other country would be able to tell it what to do.

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[redacted] while the USSR had given the Chinese scientific and technical know-how in the atomic field which would eventually enable them to produce nuclear weapons, it had not given them either the bomb itself or the facilities for its manufacture.

Comment: Soviet officials seldom comment on the international status of Communist China, aside from the set propaganda line. Although Yudin's remark may stem from a growing independence on the part of the Chinese Communists, it may reflect a Soviet desire to encourage the United States to reach a compromise with Peiping.

Yudin's remarks indicate that the USSR has actually given Communist China the scientific and technical assistance which was offered to China and four Satellite states on 17 January. The original offer included research fissionable materials, accelerators, and equipment for the construction of a low-power reactor useful for research purposes.

(Concurred in by OSI)

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3. USSR sells gold to Britain and reinstutes trade contracts:

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[redacted] A representative of a British banking firm told Ambassador Bohlen on 6 June that he had just signed a contract to purchase \$50,000,000 worth of Soviet gold and was staying in Moscow a few more days in the belief that the Soviet Union might sell an additional \$50,000,000 in gold.

The bank representative further stated that the USSR had reinstated in April contracts for British goods which it had canceled last January or February.

Comment: In late 1954 and early 1955, the USSR canceled \$20,400,000 worth of orders in Britain and delayed trade talks and the conclusion of new contracts with several

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other Western European countries. This retrenchment was probably a result of uncertainty on the part of Soviet foreign trade officials as to the exact role East-West trade would play in 1955 under the Khrushchev economic policy.

To date at least \$12,600,000 of the \$20,400,000 orders from the UK which were previously canceled have been reinstated, some of them on deferred delivery and payment terms.

The sale of \$50,000,000 worth of gold represents about one third of total Soviet gold sales in 1954. It demonstrates the Soviet need for foreign exchange in view of low sterling balances. (Prepared by ORR)

SOUTHEAST ASIA

4. Diem links status of French forces to Vietnamese policy on elections:

Premier Diem sees the status of the French Expeditionary Corps as closely related to the question of consultations with the Viet Minh on all-Vietnam elections, according to Ambassador Reinhardt. In Diem's view it is essential that Vietnamese sovereignty be unquestioned and complete before his government makes any declaration on the elections provided for at Geneva.

When such a declaration is made, Diem and his foreign minister want to dissociate themselves entirely from the Geneva accords. They fear that otherwise the International Control Commission, which they profoundly distrust, will move in and take over arrangements for the elections.

Comment: As a signatory of the Geneva agreements, France bears the legal responsibility for carrying out the terms for the non-Communist side. South Vietnam did not sign and Diem thus is not legally bound to enter talks with the Viet Minh on or after 20 July as specified at Geneva. He is therefore

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in a strong bargaining position to negotiate with the French on the future status of the French forces.

The Indians, who hold the deciding vote on the International Control Commission, are, however, little impressed with the legalities at issue and are apparently determined that arrangements for the elections envisioned at Geneva shall go forward. The Viet Minh, meanwhile, is stepping up its propaganda campaign to the same effect and has called publicly for negotiations on or after 20 July.

SOUTH ASIA

5. Afghan-Soviet agreement for establishment of new point of entry announced:

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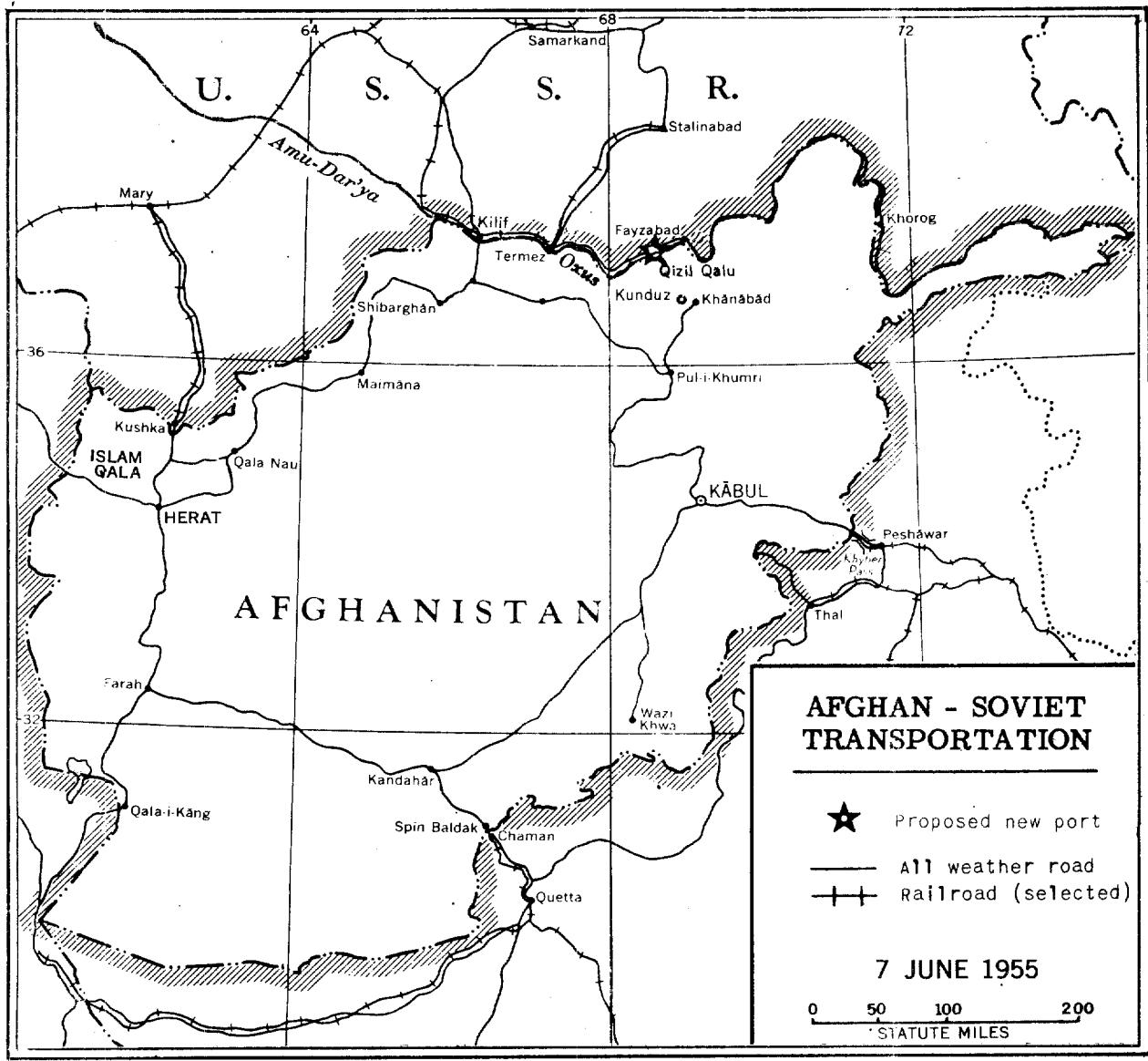
Afghanistan has announced an agreement with the USSR for the development of a new point of entry on the Afghan side of the Oxus River to facilitate the flow of Soviet goods into the country, according to the American army attaché in Kabul. With the new facilities, Qizil Qalu (see map, p.7) will replace Termez and Kilif some distance farther west. A new road will be built to the road junction at Kunduz, some 40 or 50 miles from Qizil Qalu.

Construction is to be by Afghan labor under Soviet technical supervision.

Comment: The new arrangement would materially shorten road-haul distances between the Soviet border and Kabul and could be expected to ease long-standing difficulties in moving goods between the two countries.

Negotiations have probably been under way for some time. It is possible, however, that the agreement results from negotiations conducted since Afghan-Pakistani trade was disrupted by the Kabul riots of 30 March. In the latter case, the agreement could represent either a serious Afghan attempt to find alternate transportation routes through the USSR for use in case of

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a Pakistani blockade or merely propaganda to try to force an easing of Karachi's pressure on Kabul.

NEAR EAST - AFRICA

6. Nasr reported intending to disband Egyptian council:

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Egyptian prime minister Nasr intends to disband the Revolutionary Command Council as the supreme authority in the government as soon as practicable,

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Nasr is said to feel that he will have the support of the "Free Officers" after disbanding the council. He reportedly will not regard himself as "responsible" to them, however. Nasr has no definite plans for the future form of government but wishes to establish "some new and popular basis for the revolutionary regime!"

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Comment: Other reports from Cairo suggest that Nasr may be engaged in a reappraisal of the regime's organization and that a showdown involving the support of the "Free Officers"--the 200 to 400 officers who are the basis of the regime's control over the army--may be imminent.

Disbanding the council and attempting to de-emphasize the military aspect of the regime might give the appearance of broadening the base of the government. In view of the regime's failure to gain significant popular support during the past three years, however, such actions may well result only in increasing Nasr's personal authority.

WESTERN EUROPE

7. Effect of the Sicilian elections on the Scelba government:

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As a result of the Sicilian elections on 5 June, there may be a vote of no confidence in Premier Scelba's coalition cabinet when the Italian parliament reassembles on 14 June.

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Although the Christian Democrats increased their representation in the 90-member regional assembly from 30 to 37, the ability of the Communist and Nenni Socialist Parties to hold their 30 seats and the fact that the Christian Democrats' gains were at the expense of their smaller allies in the national coalition may put Scelba in an awkward position. Furthermore, Scelba's critics could exploit the election results as proof that the government's anti-Communist campaign has been ineffective.

The Christian Democratic gains are due largely to the hard organizational work put in by party secretary Fanfani and will probably encourage him to force a reshuffle of the Rome cabinet and to claim the posts now held by the minor parties. The Christian Democrats do not have a majority in parliament, and the formation of an all-Christian Democratic government would probably not be attempted without a working arrangement with either the Nenni Socialists or the Monarchists.